CREDIT RATING ANNOUNCEMENT

GCR affirms First Bank of Nigeria Limited's national scale long and short-term issuer ratings of A+(NG)/A1(NG); Outlook revised to Positive from Stable

Rating action

Lagos, 26 September 2023 – GCR Ratings (GCR) has affirmed First Bank of Nigeria Limited's national scale long and short-term issuer ratings of A+(NG) and A1(NG) respectively, with the Outlook revised to Positive from Stable.

Rated Entity	Rating class	Rating scale	Rating	Outlook
First Bank of Nigeria Limited	Long Term Issuer	National	A+(NG)	Positive
	Short Term Issuer	National	A1(NG)	

Rating rationale

The national scale ratings of First Bank of Nigeria Limited (FirstBank or the Bank) reflect the strengths and weaknesses of FBN Holdings Plc (the Group), one of the largest financial services groups in Nigeria. FirstBank is the core operating entity within the Group, accounting for about 95.3% of total assets and 94.1% of operating revenue in the financial year ended 31 December 2022. As such, the ratings of FirstBank are equalised to the Group's Anchor Credit Evaluator.

The positive outlook reflects our expectations of a sustained improvement in the Bank's capitalisation assessment in addition to a potential Tier 1 capital raise of NGN150 billion over the next 12-18 months. The ratings affirmation balances FirstBank's strong franchise, improved capitalisation metrics, and a sound funding and liquidity assessment against a significant exposure to foreign currency risks in the loan portfolio, a high percentage of stage 2 loans to gross loans and a rising credit loss ratio in the period under review.

FirstBank's competitive position is a positive ratings factor, underpinned by a strong banking franchise across nine international markets. In Nigeria, FirstBank accounted for about 10%, 13% and 14% of the banking sector's total assets, gross loans and customer deposits respectively as at 31 December 2022. FirstBank services its over 42 million customers (including wallets) through 739 physical branches across the country, over 17,000 P.O.S machines and 12.1 million ATM cards. FBNH's profitability is healthy, with a low funding cost that supports net interest income, which accounted for 61.5% of operating revenues and strong non-interest income (38.5% of operating revenues) in 2022. However, cost to income ratio at 61.6% in 2022 remains higher than other Tier 1 peers.

FirstBank's risk profile has improved considerably over the last five years on account of recoveries, write offs, reclassifications, and loan growth. Specifically, impaired loans (stage 3 loans) ratio has remained in a single digit territory since 2020 moderating further to 4.3% in June 2023 (2022: 4.7%, 2021: 6.7%; 2020: 8.3%). Also positively, reserve coverage of impaired loans rose to 80.5% as at 30 June 2023 from an historic low of 38.8% in 2020, with a further increase anticipated by the end of the 2023 financial year. FirstBank's credit loss ratio of

2.5% at 1H 2023 (2022: 2.0%) compared favourably with the industry average. However, stage 2 loans which are largely USD denominated oil and gas loans accounted for a high 20% of gross loans as at 31 December 2022 and are a threat to asset quality. The proportion of FCY loans to total loans increased to 58.9% in 1H 2023 due to the local currency devaluation with about half of the FCY loans allocated to the volatile oil and gas sector and 35%-40% in trade related exposures. Efforts to moderate this concentration are ongoing while the existing FCY loan book is largely hedged against foreign exchange risks. FirstBank's loan book diversification efforts are evident in the reduction in oil and gas exposure to 38.0% of gross loans in 1H 2023 from 42.2% in 2016 despite the series of Naira devaluation; however, the concentration is higher than the industry's average. Furthermore, obligor concentration persists as the twenty largest obligors constituted a higher 44.9% of the loan portfolio in 1H 2023 (2022: 38.1%) due to the Niara devaluation and remains largely in the oil and gas sector.

Capitalisation is assessed at an intermediate level. GCR core capital ratio registered at c.17% as at 30 June 2023 supported by good earnings during the period. Going forward, FirstBank's GCR core capital ratio is projected to rest within the 15.0% to 17.5% range over the next 12-18 months in view of a proposed Tier 1 capital raise of NGN150 billion through a rights issue balanced by an expected growth in lending activities.

The funding and liquidity assessment is a positive ratings factor. FirstBank has a strong retail franchise that provides a diversified and stable funding base. In the 2022 financial year, core customer deposits rose by 21.8% and then by another 26.9% in the first six months of 2023 to register at NGN8.8 trillion (USD11.4 billion at NGN770.4/$) as at 30 June 2023. Low-cost current and savings deposits constituted a high 77.2% of the LCY customer deposits at 1H 2023 (2022: 84.6%), supporting a relatively low cost of funds of 2.7% at 1H 2023 (2022: 2.1%) and better than the industry's average. The depositors' base is also well diversified, with the ten largest depositors accounting for 14.5% of customer deposits at 1H 2023 (2022: 11.4%).

We assess liquidity to be strong, as GCR liquid assets covered total wholesale funding strongly by 4.2x in 1H 2023 (2022: 4.2x), while GCR liquid assets as a percentage of total customer deposits was 37.5% (2022: 34.6%). FCY liquidity is also adequate, with FCY liquid assets accounting for c.45% of FCY liabilities in 2022 (2021: c.43%). There was a moderation in FCY domiciliary deposits coverage of FCY loans at 67.5% as at 30 June 2023 (2022: 118.3%) caused largely by the Naira devaluation. However, FirstBank's FCY funding is supported by access to international financial institutions. Over the next 12-18 months, FirstBank's funding structure and liquidity metrics are expected to remain strong on the back of its strong franchise.

Outlook statement

The positive outlook reflects our expectation of an improved capitalisation assessment in addition to a potential Tier 1 capital raise of NGN150 billion which could keep GCR core capital ratio comfortably in the 15.0%-17.5% range over the next 12-18 months. During this period, FirstBank is expected to sustain its market position, maintain asset quality metrics within acceptable limits and improve earnings leveraging on its retail driven funding base and non-interest income generation.

Rating triggers

The rating could be upgraded with a sustained improvement in asset quality, addressing concerns such as sector and obligor concentration, FCY risks and high cost of risk. A GCR core capital maintained above 17.5%

on a sustained basis could also trigger a positive rating action. Conversely, a downgrade could result from a material deterioration in asset quality and a GCR CAR below 15%.

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Related criteria and research

Criteria for the GCR Ratings Framework, January 2022
Criteria for Rating Financial Institutions, May 2019
GCR Ratings Scales, Symbols & Definitions, May 2022
GCR Country Risk Scores, September 2023
GCR Financial Institutions Sector Risk Score, April 2023

Ratings history

First Bank of Nigeria Limited					
Rating class	Review	Rating scale	Rating	Outlook/watch	Date
Long Term Issuer	Initial	National	AA(NG)	Positive	September 2006
Short Term Issuer	Initial	National	A1+(NG)	---	September 2006
Long Term Issuer	Last	National	A-(NG)	Stable	October 2022
Short Term Issuer	Last	National	A2(NG)	---	October 2022

Risk score summary

Rating Components & Factors	Risk Scores
Operating environment	**7.50**
Country risk score	4.00
Sector risk score	3.50
Business profile	**1.75**
Competitive position	1.75
Management and governance	0.00
Financial profile	**(0.25)**
Capital and Leverage	(1.00)
Risk	(0.25)
Funding and Liquidity	1.00
Comparative profile	**0.00**
Group support	0.00
Government support	0.00
Peer analysis	0.00
Total Score	**9.00**

Glossary

Accounting	A process of recording, summarising, and allocating all items of income and expense of the company and analysing, verifying and reporting the results.
Affirmation	See GCR Rating Scales, Symbols and Definitions.
Asset Quality	Refers primarily to the credit quality of a bank's earning assets, the bulk of which comprises its loan portfolio, but will also include its investment portfolio as well as off balance sheet items. Quality in this context means the degree to which the loans that the bank has extended are performing (ie, being paid back in accordance with their terms) and the likelihood that they will continue to perform.
Asset	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Basis Point	1/100th of a percentage point.
Capital Base	The issued capital of a company, plus reserves and retained profits.
Capital	The sum of money that is invested to generate proceeds.
Capitalisation	The provision of capital for a company, or the conversion of income or assets into capital.
Credit	A contractual agreement in which a borrower receives something of value now, and agrees to repay the lender at some date in the future, generally with interest. The term also refers to the borrowing capacity of an individual or company
Currency Risk	The potential for losses arising from adverse movements in exchange rates.
Customer Deposit	Cash received in exchange for a service, including safekeeping, savings, investment, etc. Customer deposits are a liability in a bank's books.
Diversification	Spreading risk by constructing a portfolio that contains different exposures whose returns are relatively uncorrelated. The term also refers to companies which move into markets or products that bear little relation to ones they already operate in.
Downgrade	The rating has been lowered on its specific scale.
Exposure	Exposure is the amount of risk the holder of an asset or security is faced with as a consequence of holding the security or asset. For a company, its exposure may relate to a particular product class or customer grouping. Exposure may also arise from an overreliance on one source of funding.
Financial Institution	An entity that focuses on dealing with financial transactions, such as investments, loans and deposits.
Financial Year	The year used for accounting purposes by a company or government. It can be a calendar year or it can cover a different period, often starting in April, July or October. It can also be referred to as the fiscal year.
Hedge	A form of risk management aimed at mitigating financial loss or other adverse circumstances. May include taking an offsetting position in addition to an existing position. The correlation between the existing and offsetting position is negative.
Income	Money received, especially on a regular basis, for work or through investments.
Interest	Scheduled payments made to a creditor in return for the use of borrowed money. The size of the payments will be determined by the interest rate, the amount borrowed or principal and the duration of the loan.
Liquid Assets	Assets, generally of a short term, that can be converted into cash.
Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Market	An assessment of the property value, with the value being compared to similar properties in the area.
National Scale Rating	National scale ratings measure creditworthiness relative to issuers and issues within one country.
Obligor	The party indebted or the person making repayments for its borrowings.
Portfolio	A collection of investments held by an individual investor or financial institution. They may include stocks, bonds, futures contracts, options, real estate investments or any item that the holder believes will retain its value.
Rating Horizon	The rating outlook period
Revaluation	Formal upward or downward adjustment to assets such as property or plant and equipment.

Rights Issue	One of the ways that a company can raise additional funds is to issue new shares. These must be first offered to current shareholders and a rights issue allows a shareholder to buy shares in proportion to the number already held.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Upgrade	The rating has been raised on its specific scale.

Salient points of accorded rating

GCR affirms that a.) no part of the rating process was influenced by any other business activities of the credit rating agency; b.) the ratings were based solely on the merits of the rated entity, security or financial instrument being rated; and c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

The credit ratings have been disclosed to First Bank of Nigeria Limited. The ratings above were solicited by, or on behalf of, the rated entity, and therefore, GCR has been compensated for the provision of the ratings.

First Bank of Nigeria Limited participated in the rating process via face-to-face management meetings, as well as other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from First Bank of Nigeria Limited and other reliable third parties to accord the credit ratings included:

- The audited financial results to 31 December 2022
- Unaudited management accounts as at 30 June 2023
- Four years of comparative audited numbers
- Other related documents.

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